

IMMIGRATION

AND ECONOMIC MOBILITY

SETH ZIMMERMAN, THE URBAN INSTITUTE

KEY FINDINGS:

- Within ethnic groups, the second generation achieves 5 to 10 percent higher wages relative to native-born workers than does the first generation.
- About half of the economic status of one immigrant generation persists into the next, a relationship that has remained stable over the past several decades ([Borjas 2006](#)).
- Some economists argue that immigration accounts for a 3 to 4 percent decline in the earnings of native-born workers, with losses concentrated at the low end of the income distribution ([Borjas and Katz 2005](#)); others find negligible or positive impacts (respectively, [Card 2005](#) and [Ottaviano and Peri 2006](#)).

*The relationship between immigration and economic mobility is complex and has likely shifted over time in response to increases in the size and changes in the composition of the immigrant population. America offers opportunities for many immigrants to improve their earnings relative to what they could earn in their countries of origin, and research suggests that immigrants' children tend to experience further economic gains. But the effect of immigrant workers on the earnings of low-skilled, native born workers may be significantly negative; some find that the recent influx of low-skilled, immigrant labor makes it more difficult for low-skilled native-born workers to gain higher wages. So, while immigration produces upward **intra- and intergenerational** mobility for immigrants themselves, it may depress upward intragenerational mobility for native-born workers.*



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Current research does not directly address the broader impacts of immigration on intergenerational mobility. However, it does provide insight into factors that have the potential to drive (or derail) future upward mobility. For instance, immigrants are more likely to live in poverty and have very little education than are native-born citizens. Such traits dampen upward intergenerational mobility, implying that increases in the number of immigrants may slow upward mobility in the population as a whole. On the other hand, immigration allows the supply of labor to increase quickly in response to rising demand, thus facilitating economic growth, which is a prerequisite for broad increases in upward mobility.

The first section of this review examines the effects of immigration on intragenerational mobility through the lens of wage, earnings, and inequality effects. The second section considers the literature on intergenerational mobility amongst immigrant families, and the third discusses the impacts immigration has on drivers of long-term upward mobility. The table on the next page summarizes key results from each section.

INTRAGENERATIONAL MOBILITY, WAGE PRESSURE, AND INEQUALITY

Ideally, research on the mobility impacts of immigration would examine the effects of immigration on the trajectories of individual incomes over time. The vast majority of current research, however, pursues a cross-sectional strategy, estimating the effects of immigration on earnings or inequality at a point in time (and possibly comparing these estimates across time). Though less than ideal, such research does provide insight into mobility outcomes. For instance, if immigration puts downward pressure on the wages and earnings of low-skill workers, their chances of moving up in the income distribution will likely be diminished. Similarly, if rising inequality represents the result of this downward wage pressure, it too will shed light on economic mobility.

Immigration and intragenerational mobility

- Some economists argue that immigration accounts for a 3 to 4 percent decline in the earnings of native-born workers, with losses concentrated at the low end of the income distribution ([Borjas and Katz 2005](#)); others find negligible or positive impacts (respectively, [Card 2005](#) and [Ottaviano and Peri 2006](#)).
- Immigration accounted for slightly less than 10 percent of the increase in U.S. earnings inequality during the 1980s and early 1990s, compared to about 10 percent each for the declines in unionization and the real minimum wage ([Council of Economic Advisers 1997](#)). However, including pre-immigration income data substantially reduces the overall increase in earnings and income inequality ([Lerman 1999](#); [Lerman 2003](#)).

Intergenerational mobility amongst immigrants

- Within ethnic groups, the second generation achieves 5-10 percent higher wages relative to native-born workers than does the first generation. About half of the economic status of one immigrant generation persists into the next, a relationship that has remained stable over the past several decades ([Borjas 2006](#)).

Drivers of upward mobility

- Immigrants account for a large share of U.S. labor force growth: 51 percent between 1996 and 2002, despite making up only 14 percent of the labor force ([Orrenius 2003](#)).
- Immigrants are more likely to live in poverty, suffer from poor **health**, and have lower levels of **education** than native-born Americans ([Capps et al. 2005a and 2005b](#)). Each of these traits makes upward mobility more difficult.

Immigration can benefit the native population if immigrants bring skills that the native work force lacks so that the skills of natives and immigrants complement each other ([Borjas 1999](#)). Recent immigration, however, has brought a large number of low-skill workers into the U.S. economy. These workers may be substitutes for native low-skill workers; if so, they are likely to lower native workers' earnings and increase earnings inequality. The net effect of immigration is cloudy, as research attempting to tie immigration to downward wage pressures and increasing inequality has produced mixed results. Consider first the evidence for downward wage pressure. On one hand, [Borjas, Freeman, and Katz \(1997\)](#) find immigration responsible for a 3-6 percent decline in the relative wages of low-wage workers between 1980 and 1995, or 27-55 percent of the total decline for that group over the period. Later findings by [Borjas and Katz \(2005\)](#) estimate the overall negative effect of immigration on earnings at 3.4 percent between 1980 and 2000, with most of the losses concentrated in an 8.2 percent decline in dropouts' earnings. Different methodological choices, however, can yield only a negligible negative effect, best illustrated in the work of [Card \(2001 and 2005\)](#). The table below summarizes a few key findings:

Immigration's Impacts on Low-Skill Native-Born Americans

<i>Study (dataset)</i>	<i>Methods and Key Results</i>
Card 2005 (Census PUMS 1980 and 2000)	<ul style="list-style-type: none"> ○ Uses differences between urban areas in the supply of immigrant workers at various skill levels to assess impact of immigration on wages of low-skill native workers. ○ Findings: supply of low-skill workers is not correlated with the relative wages of native-born dropouts. Increasing supply of immigrants with low education levels has not increased the difference between the wages of dropouts and the wages of HS graduates.
Borjas, Freeman, and Katz 1997 (1960, 1970, 1980, 1990 Census PUMS; 1995 CPS merged ORG)	<ul style="list-style-type: none"> ○ Assesses the proportions of skilled and unskilled labor at various levels of immigration and trade, then evaluates the wage consequences of the skill distribution. ○ Findings: changes in immigration levels lowered the relative wages of dropouts by 3 to 6 percent between 1980 and 1995, accounting for 27 to 55 percent of the total decrease in wages for this group. ○ For comparison: changes in trade with less-developed countries account for at most 10 percent of decrease in relative wages over the same period.
Borjas and Katz 2005 (1900-2000 Census IPUMS)	<ul style="list-style-type: none"> ○ Assesses the impact of changes in the size and characteristics of the national immigrant population on outcomes of low-skill natives ○ Findings: immigrants lower wages of native workers by 3.4 percent between 1980 and 2000.
Ottaviano and Peri 2005 (IPUMS 1960-2000, 2004 ACS)	<ul style="list-style-type: none"> ○ Builds on Borjas, Freeman, and Katz (1997), Borjas (2003), and Borjas (2006) using a model that allows for the imperfect substitutability of native-born and immigrant workers within age/experience categories and developments in physical capital in response to immigration. ○ Average wage of native-born workers up 1.8 percent due to immigration between 1990 and 2004. The least-educated 10 percent of workers lost roughly 1.1 percent of their real wages over the period, but the remaining 90 percent saw gains. ○ For comparison: under the Borjas model, losses for least-educated workers would have been 4.2 percent
Orrenius and Zavodny forthcoming (CPS ORGs 1994-2000; INS immigration)	<ul style="list-style-type: none"> ○ Looks at the national impacts of immigration on wages within various occupation groups. ○ Wages of natives with low skill levels are pushed about 0.8 percent lower due to the annual inflow of legal permanent residents into their occupation categories. The wages of higher-skilled native-born workers are not

data)	significantly affected.
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An important methodological difference explains some of the discrepancies between these studies. Borjas's work typically considers the response of wages to changes in immigrant populations over time in the nation as a whole. Card's work focuses on the relationship between changes in wages and changes in immigrant populations between cities at two points in time. [Card \(2005\)](#) argues that the geographical approach offers clear counterfactuals in the form of inter-city comparisons, but may yield misleading results if low-skill workers move to other cities in response to labor market conditions. In this case, the impact of immigration will be dispersed and a national model is more appropriate. The time series analyses of national data relate changes over time in immigrant densities to economy-wide measures of relative labor market outcomes. This approach avoids dependence on local markets, but produces inferences that rely on broad assumptions about trends in labor market factors rather than a clear counterfactual. Thus, time-series analysis may yield incorrect estimates if researchers make unwarranted assumptions about the impacts of other drivers of wages, such as skill-based technical change.

Several authors argue that these assumptions do much to determine the results produced by such models (see [Orrenius and Zavodny](#) for a brief summary). A recent study by [Ottaviano and Peri \(2005\)](#) loosens assumptions about the equivalence of native-born and immigrant workers and changes in physical capital in response to immigration. Using this formulation, immigration actually exerts a positive impact on the wages of most workers and only a small negative effect on individuals at the bottom of the skill distribution.

Even as the increasing supply of workers reduces labor costs, the indirect effect may be to lower the prices of goods, thereby raising purchasing power and offsetting the reduced earnings experience by some native workers. Recent research finds immigration does lower prices of labor-intensive goods and services, but not enough to compensate low-skill workers for their lost wages ([Cortes 2005](#), as cited in [Borjas 2006](#)).

Like measures of wage impacts on low-wage workers, direct calculations of immigration's effects on inequality are also sensitive to methodological choices. In the mid-1990s, the consensus among labor economists was that immigration increased earnings inequality by roughly 10 percent in the 1980s and early 1990s. [Lerman \(1999 and 2003\)](#) points out that these calculations ignore the compositional shifts in the population by comparing a late 1970s population without the large wave of future low-skilled immigrants and a population in the 1990s that includes this new subgroup of individuals. He argues for two alternative methods. One compares earnings distributions in the base and final years with post-1970s immigrants excluded from both time periods. Another comparison of earnings distributions includes post-1970s immigrants in the base and final years, measuring their earnings in the initial year based on their pre-immigration earnings levels. Relative to these alternatives, Lerman argues that conventional methods overstate increases in inequality. A key question is whether estimates of inequality trends should take into account the large jump in income and earnings that most immigrants experience upon their arrival in the United States.

IMMIGRATION AND INTERGENERATIONAL MOBILITY

Coinciding as it does with an important piece of the oft-invoked American Dream, the economic mobility of immigrants in the United States has been widely studied. The impact of immigration on broader mobility patterns has received much less attention, but, *ceteris paribus*, it stands to reason that a society in which immigrants are able to move unfettered throughout the economic spectrum will be more mobile than a society with an unassimilated immigrant underclass.

Predictably, empirical results point towards a reality somewhere in between these two extremes. The critical paper on this issue is [Borjas \(2006\)](#), which shows that second-generation immigrants tend to improve upon the fortunes of their parents, typically earning wages that are 5 to 10 percent higher than wages of their native-born counterparts. At the same time, however, the economic fortunes of second and third generation immigrants are still strongly tied to those of their parents; Borjas estimates the intergenerational elasticity of male immigrants within various ethnic groups at roughly 0.5. This implies that the socio-economic status of a family of first-generation immigrants shapes roughly a quarter of the socio-economic status of their third-generation grandchildren—the effects of initial status do not disappear quickly. In fact, intergenerational transmission of SES appears to depend heavily on the simultaneous transfer of educational outcomes. In this light, the findings of [Card \(2005\)](#) give reason for optimism. Using cross-sectional data, he finds that second-generation children of the least-educated immigrant groups make up much of this education gap.

While Borjas's estimates that immigrants' intergenerational mobility has remained static over time, he also finds that the average economic "starting point" for immigrants has moved backwards as less-educated immigrants from less-developed countries (particularly Mexico) have made up an increasing share of new arrivals ([Borjas and Katz 2005](#)). In the 1970s, first-generation immigrants earned wages slightly above those of the average native-born worker and the wages of second-generation immigrants were higher still. The picture is starkly different for immigrants that came since the late 1970s. If current trends continue, by 2030 even second-generation immigrants from this cohort will have lower wages than the typical native-born worker ([Borjas 2006](#)).

It is worth noting that the move to the United States is often accompanied by remarkable upward mobility. [Rosenzweig \(2006\)](#) (as cited in [Haskins 2007](#)) estimates that moderately-skilled Mexican workers earn seven times more in the United States than they would in Mexico. As with inequality, assessing the relationship between mobility and immigration may hinge on the treatment of pre-immigration datapoints.

IMMIGRATION AND OTHER DRIVERS OF MOBILITY

A substantial literature considers the links between immigrant status and various traits that have also been identified as drivers of mobility, like **education**, **health status** and **family structure**. [Capps et al. \(2005a\)](#) and [Reardon-Anderson et al. \(2002\)](#), for instance, find that children in immigrant families are more likely than other children to have parents with low levels of education and limited English proficiency, are less likely to be insured, and are more likely to experience fair or poor health. At the same time, they are more likely to live in two-parent families than native-born children. [Capps et al. \(2005b\)](#) find that parents in low-income families are just as likely to work as native-born parents, but are more likely live in poverty and less likely to take advantage of **benefits programs***. As the children of immigrants now make up 20 percent of all children in the United States ([Capps and Fortuny 2006](#)), the mobility dynamics in immigrant families will play a major role in shaping long-term mobility trends.

Immigration may also affect long-term mobility by contributing to economic growth. Because immigration rises in response to increased labor demand, it allows businesses to expand more quickly than they would if forced to rely only on native-born workers. For instance, between 1996 and 2002, foreign-born workers accounted for 51 percent of labor force growth, despite making up only 14 percent of the labor force in the latter year ([Orrenius 2003](#)). It is possible that such statistics overstate the importance of immigration in promoting economic growth: [Borjas, Freeman, and Katz \(1997\)](#) estimate that, in 1995, immigration increased U.S. GDP by at most a tenth of one percent. Still, consensus holds that, although its effects on workers at different skill levels are mixed, immigration spurs growth in the economy as whole.

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PROJECT PRINCIPALS

Marvin Kosters, Ph.D., American Enterprise Institute

Isabel Sawhill, Ph.D., *Center on Children and Families*, The Brookings Institution

Ron Haskins, Ph.D., *Center on Children and Families*, The Brookings Institution

Stuart Butler, Ph.D., *Domestic and Economic Policy Studies*, The Heritage Foundation

William Beach, *Center for Data Analysis*, The Heritage Foundation

Eugene Steuerle, Ph.D., *Urban-Brookings Tax Policy Center*, The Urban Institute

Sheila Zedlewski, *Income and Benefits Policy Center*, The Urban Institute

PROJECT ADVISORS

David Ellwood, Ph.D., *John F. Kennedy School of Government*, Harvard University

Christopher Jencks, M. Ed., *John F. Kennedy School of Government*, Harvard University

Sara McLanahan, Ph.D., Princeton University

Bhashkar Mazumder, Ph.D., The Federal Reserve Bank of Chicago

Ronald Mincy, Ph.D., Columbia University School of Social Work

Timothy M. Smeeding, Ph.D., *Maxwell School*, Syracuse University

Gary Solon, Ph.D., Michigan State University

Eric Wanner, Ph.D., The Russell Sage Foundation

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